

701—107.6(422B) Motor vehicle, recreational vehicle, and recreational boat rental subject to local option service tax. The principles used to determine whether motor vehicle, recreational vehicle, and recreational boat rental are subject to Iowa tax are set out in rule 701—26.68(422). Basic principles which determine whether rentals are or are not subject to Iowa sales tax can be used to determine if the rentals are subject to a local option service tax. For example, a short-term rental of a vehicle has occurred within a county imposing a local option sales tax when, pursuant to a rental contract, possession of a vehicle is transferred to a customer. The tax is collectible when any lump sum or periodic payment is due under the rental agreement and paid within the local option county. Transfer of possession of the vehicle must have occurred in the county imposing the local option tax; a contract for rental need not have been executed there.

EXAMPLE 1. Assume that the whole of Polk County has a local option service tax. Customer A signs a rental contract with and takes possession of a rental car from an office of a rental agency located in Des Moines. Thereafter, A drives the car from Des Moines to Dubuque, Iowa, and back. In Des Moines, the rental agency collects gross receipts from the rental of \$100. Such gross receipts would be subject to Polk County local option sales tax.

EXAMPLE 2. Assume the same facts as in Example 1 except that customer B drives the automobile to Dubuque, Iowa, where no local option tax is imposed and drops it off at a rental agency office there. Also in Dubuque, the customer pays a total charge for the rental of \$50. No Polk County local option service tax is due. Transfer of possession occurred in Polk County, but payment for the rental did not.

EXAMPLE 3. Assume the same facts as in Examples 1 and 2, except that before taking possession of the vehicle in Des Moines, customer A pays the rental agency a \$25 deposit. Also, rental of the vehicle is on a mileage and per-day basis. Customer A drives the vehicle to Dubuque, Iowa. There it is discovered that the mileage and per day charges add up to \$50. Customer A pays the rental agency an additional \$25 in Dubuque which has no local option tax. Polk County local option service tax is due upon the \$25 deposit paid in Des Moines, but not upon the \$25 paid in Dubuque. Only the payment made under the lease in Des Moines is subject to Polk County local option tax.

EXAMPLE 4. Assume the same taxation situation as in Example 1. Customer A rents a car in Dubuque, Iowa, which has no local option tax and drives it to Des Moines which has a local option tax. In Des Moines, A pays \$50 for the use of the car. Since transfer of possession of the vehicle did not take place in Polk County, the leasing transaction is not subject to local option service tax. Payment under the lease alone, within a county, does not allow imposition of that county's local option sales tax.